HOUSING MARKET OUTLOOK
Québec CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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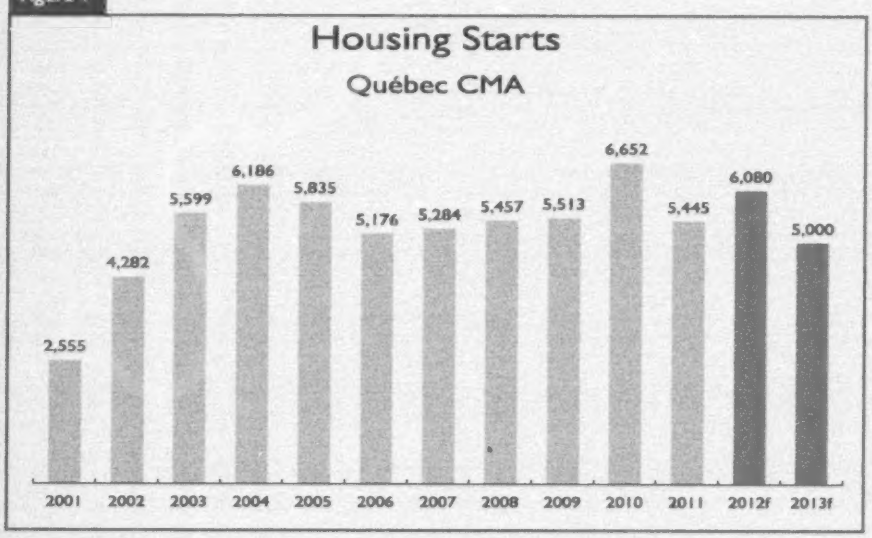
Residential construction expected to decline[1]

In the Québec census metropolitan area (CMA), the economic and demographic environment will remain stable this year and next, which will moderate housing demand from now until the end of 2013.

Still, in 2012, activity will be particularly significant on the new home market, as 6,080 starts are anticipated, for an increase of 12 per cent over the level recorded in 2011. The start of construction on several condominium and rental housing projects will account for this growth. In 2013, however, the declines expected in these two market segments will limit total starts to

Figure 1



Source: CMHC
f: CMHC forecasts

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of October 17, 2012.

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5,000 units, representing a drop of 18 per cent for the CMA.

The more moderate trend in economic conditions will restrict potential growth on the resale market. MLS® transactions will therefore rise by 2 per cent, in both 2012 and 2013. Overall, the market will be softer, so there will be more choice for buyers.

The rental market should ease very slightly this year, and the vacancy rate should rise to 1.8 per cent, from 1.6 per cent in 2011. Next year, market conditions should soften more significantly, with the arrival of a number of new rental dwellings, and the proportion of vacant units should reach 2.5 per cent.

Economic conditions to remain stable

After having attained a peak at the beginning of 2012, the employment trend[2] has since been on the decline. This downward movement followed a steady increase that had been observed since mid-2011. In addition, full-time employment registered a smaller gain than part-time employment. Still, for the year overall, employment will have risen modestly.

This year and next, with the many infrastructure projects, employment will hold steady but will not post any notable gains. The growth will be more moderate than in the last two years. In fact, it is anticipated that capital expenditures for the private and public sectors will be maintained at levels similar to those incurred in 2010 and 2011[3]. As well, the expected economic growth, rather timid at the provincial level, will also mark out the potential for regional expansion.

The economic drivers will remain well in place this year and next, but the rate of growth will slow down somewhat. The construction, finance and insurance, and professional services sectors will be the pillars of the economy, as they will ensure a sound and growing job market. On the other hand, the development potential of other sectors—including manufacturing and warehousing and transportation—will continue to sustain the negative effects of a sluggish overall economy. As well, the objectives to control and cut government spending will limit job prospects in the public administration sector.

As a result, just over 2,000 jobs will be created this year (+0.5 per cent). Next year, the labour market will gain from activity picking up to some extent on major projects. Employment growth will benefit, with the addition of 4,200 jobs (+1.0 per cent). These increases will be more moderate than what the area has recorded, on average, in the last five years (+2.3 per cent).

Lastly, it is expected that the unemployment rate in the CMA will remain among the lowest in Canada's urban centres, reaching 5.2 per cent in 2012 and then falling to 5.0 per cent in 2013. These results will be similar to the average for the last five years (5.0 per cent). In fact, while employment posted significant gains over this period, the labour force also experienced a period of considerable growth. The strong employment prompted more people, already living in the area, to enter the labour market. Furthermore, this also had an impact on demographics, as many newcomers settled in the CMA and fewer people left the area.

Housing demand will reflect the more stable conditions, which will be maintained without posting strong growth.

Demographic growth still an asset for the area

The results of the latest census confirmed the vitality of the area on the demographic front. The Québec area effectively registered the strongest population growth (+6.5 per cent) among the major urban centres in the province.

This population growth was likely attributable not only to the performance of the economy and the labour market but also to the fact that the Québec CMA stood out among the other areas across the province. In fact, among the six metropolitan areas in the province, Québec has ranked first in terms of employment growth in the last five years.

A new trend is in fact emerging in the area, as the number of international migrants has been steadily rising, having posted an increase of 57 per cent between 2007 and 2011. International migration now accounts for the major part of net migration in the CMA. In all, the net gain of newcomers from abroad reached 2,660 people in 2011, while the gain from other regions was 2,161 people. This will help maintain a strong demand for rental housing, as newcomers represent a client group for this market segment.

Going forward, the picture emerging for the area is similar to the situation of recent years. Net migration will reach 4,650 people both this year and next year. As well, the interregional

[2] Six-month moving average, seasonally adjusted rates
[3] Statistics Canada and Institut de la statistique du Québec, Capital Expenditure Survey, Capitale-Nationale and Chaudière-Appalaches, 2012

migration component is expected to remain significant in the equation, while the number of newcomers from abroad should be maintained. Net interprovincial migration, for its part, should not record any significant change, having in fact improved, decreasing from a net loss of 965 people in 2007 to a loss of 178 people in 2011.

The steady influx of newcomers will contribute to maintaining a strong housing demand, particularly on the rental market. In fact, renting is a practical and flexible choice for newcomers.

Migration will continue to breathe young life into the Québec area, as young people make up a considerable proportion of the newcomers. In fact, according to the latest available data[4], 78 per cent of the interregional net migration was composed of young people aged from 15 to 29.

As well, between 2006 and 2011, Québec had the highest rate of growth of people aged 65 years or older among all CMAs in Canada, at 22 per cent. Just like in recent years, the aging population in the Québec CMA will impact the housing market, for example, by leading to a rise in demand for rental and condominium housing.

Mortgage rates

Although there is significant uncertainty, mortgage rates are not expected to change this year. A slight rise is anticipated for next year, but the rates will remain low by historical standards. According to CMHC's base case scenario, for 2012, the one-year posted mortgage rate is expected to be in the 2.75 to 3.50 per cent range. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 to 4.00 per cent range, while the five-year posted mortgage rate is forecast to be within 5.00 to 5.75 per cent, reflecting better employment and economic growth prospects for 2013.

Existing home market still headed for moderate growth

The economic and demographic climate in the Québec CMA, along with favourable financing conditions, will keep the market strong. However, the more moderate prevailing conditions will reduce potential market growth. As a result, MLS® transactions will rise by 2 per cent annually, in both 2012 and 2013. In all, there should be a total of 7,350 MLS® sales of residential properties in the CMA this year and 7,500, next year. This level of activity is similar to the average for the last five years (7,600 MLS® sales).

The market easing trend observed in 2011 will continue this year and next. Buyers will have more choice, especially in the case of condominiums. Already, in the first three quarters of the year, the inventory of condominiums for sale rose by 26 per cent, while the inventory of single-family homes went up by 10 per cent.

The greater increase in the supply of condominiums is attributable to the rise in starts in recent years and the fact that dwellings of this type change hands more often. In fact, it is estimated that about 50 per cent of the condominiums sold in 2005 have since been resold[5] (new and

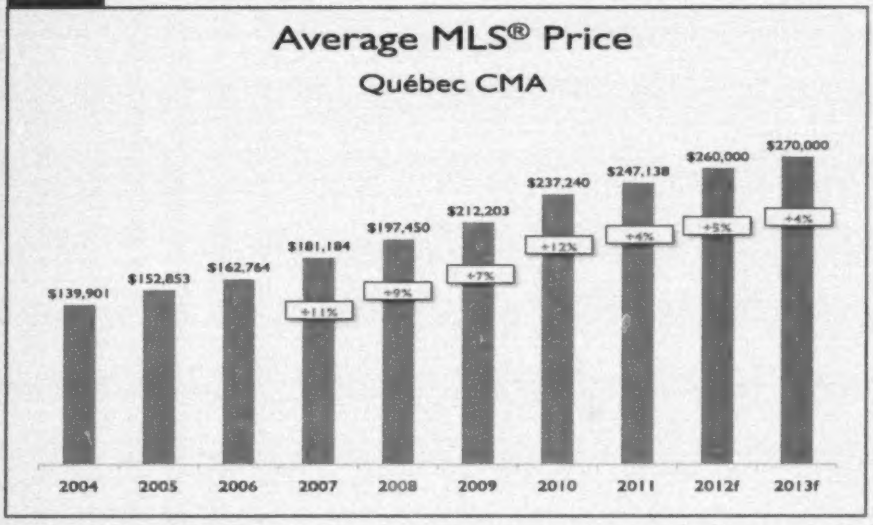
Figure 2

Source: QFREB by Centris®
f: CMHC forecasts

[4] Interregional migration, by administrative region, Capitale-Nationale administrative region, 2001-2006. Source: Institut de la statistique du Québec, insured persons registration file (FIPA) of the Régie de l'assurance maladie du Québec

[5] Condominium transactions registered in 2005 and subsequent resales. Source: JLR (CMHC calculations)

Figure 3



Source: QFREB by Centris®
f: CMHC forecasts

existing units). As well, condominiums benefited from their popularity among a diverse client group. Some of these buyers may also opt for a more spacious home when their needs change, particularly at the time of starting a family.

Overall, the number of MLS® properties for sale will increase by 16 per cent in 2012 and then by 6 per cent in 2013. And, MLS® transactions will rise by 2 per cent per year over this same period. Market conditions will be less tight, so there will be more choice for buyers. This will be the case for single-family houses, while market conditions for condominiums will be balanced and might even move into buyer's territory.

In these conditions, the growth in the average price of residential properties will be more moderate, with expected increases of 5 per cent in 2012 and 4 per cent in 2013. The average price will therefore attain $260,000 this year and then $270,000 next year.

New home market to slow down in 2013

This year, activity will be particularly significant, as 6,080 starts are anticipated, for an increase of 12 per cent over the level recorded in 2011. The start of construction on several condominium and rental housing projects will account for this growth. In 2013, however, the declines expected in these two market segments will bring total starts to 5,000 units, representing a drop of 18 per cent for the CMA.

Economic conditions will remain favourable for the new home market, but other factors will have non-negligible impacts on this market in 2013. Among them, the wider choice of properties for sale on the existing home market will contribute to bringing down the level of activity in the residential construction sector. Also, the strong growth in the condominium supply, which has outpaced demand, will slow down the rate of construction over the coming months. Lastly, with the rental housing segment having been very active this year, 2013 will end with a decrease in the number of dwellings started, to allow time for the new units to be absorbed.

In 2012, condominium starts are expected to reach 2,300 units, for an increase of 16 per cent over 2011. A detailed analysis of the absorption of units in 2012 is pointing to a 22-per-cent decrease in starts next year. Still, despite this anticipated slowdown in 2013, condominium starts will remain at a historically high level.

Rental housing construction will be particularly strong this year, with foundations being laid for 1,700 new units, or almost double the number recorded in 2011. Several factors will contribute to the strong showing expected this year. For one thing, rental market conditions are still tight, as the vacancy rate has been under the 2-per-cent mark for several years in the area. For another, high migration will support demand for rental housing. Following several years of strong activity, starts should reach 1,200 units next year, for a drop of nearly 30 per cent.

As for rental units intended for seniors, no significant change is anticipated, as supply has been rising in recent years and, overall, the Québec market is well served, with a vacancy rate that attained 5.2 per cent in February 2012.

Single-detached home construction will continue its downward trend. Demand for houses of this type is facing several limitations: more choice on the existing home market, rising prices for properties and lots, municipal directions promoting higher-

density construction, and the location of projects in outlying sectors. Consequently, single-detached housing starts are expected to fall by 11 per cent this year and by 8 per cent next year.

This year, semi-detached housing starts are decreasing. In fact, for the first three quarters, the drop was 41 per cent. After several years of growth, the construction of this type of housing is on the decline. The more abundant supply on the existing home market slowed down construction in this segment. In 2012, 450 semi-detached homes should get under way, and this level will be maintained in 2013.

Overall, activity on the new home market will be quite considerable this year but, next year, the level will reflect the anticipated decreases in the condominium and rental housing segments.

Rental market to ease

Rental housing demand will remain significant in the CMA. The Québec area will welcome just as many newcomers, most of whom will opt for a rental dwelling. A dynamic labour market also allows young people to leave their family homes, and they, too, are a major client group for the rental market. However, employment growth will be less strong than in recent years, which will dampen demand. In addition, the movement to homeownership will continue. In the end, the economic and demographic environment will remain stable this year and next, which will moderate demand for rental housing compared to the last few years.

On the supply side, rental housing construction will grow this year while, in 2011, activity had been less significant. With a stable environment, the market should ease slightly this year, and the vacancy rate should rise to 1.8 per cent, from 1.6 per cent in 2011. Next year, conditions should ease more markedly, with the arrival of a number of new rental dwellings, and the proportion of vacant units should reach 2.5 per cent.

The average rent for two-bedroom apartments will register smaller increases and should attain $730 this year and $740 next year.

Figure 4

Source: CMHC
f: CMHC forecasts

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Forecast Summary Québec CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market[1]							
MLS® Sales	7,962	7,073	7,201	7,350	2.1	7,500	2.0
MLS® Active Listings	3,243	3,107	4,046	4,700	16.2	5,000	6.4
MLS® Average Price ($)	212,203	237,309	247,138	260,000	5.2	270,000	3.8
New Home Market							
Starts:							
Single-Detached	1,746	1,768	1,349	1,200	-11.0	1,100	-8.3
Multiples	3,767	4,884	4,096	4,880	19.1	3,900	-20.1
Starts - Total	5,513	6,652	5,445	6,080	11.7	5,000	-17.8
Average Price ($):							
Single-Detached	294,172	292,370	313,905	324,000	3.2	330,000	1.9
New Housing Price Index (% chg.)	7.0	3.2	1.4	2.0	-	2.0	-
Rental Market[2]							
October Vacancy Rate (%)	0.6	1.0	1.6	1.8	-	2.5	-
Two-bedroom Average Rent (October) ($)	676	692	718	730	-	740	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	395,100	410,200	419,700	421,800	0.5	426,000	1.0
Employment Growth (%)	0.3	3.8	2.3	0.5	-	1.0	-
Unemployment rate (%)	4.9	4.9	5.3	5.2	-	5.0	-
Net Migration	4,625	4,707	4,643	4,650	0.2	4,650	0.0

[1] Source : QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®

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